



House of Representatives

General Assembly

File No. 692

January Session, 2005

House Bill No. 6940

House of Representatives, May 4, 2005

The Committee on Appropriations reported through REP. MERRILL of the 54th Dist., Chairperson of the Committee on the part of the House, that the bill ought to pass.

AN ACT INCREASING THE AUTHORITY OF THE TREASURER WITH RESPECT TO THE USE OF UNAPPROPRIATED GENERAL FUND SURPLUS IN EXCESS OF THAT TRANSFERRED TO THE BUDGET RESERVE FUND.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (a) of section 4-30a of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective July*
3 *1, 2005*):

4 (a) After the accounts for the General Fund have been closed for
5 each fiscal year and the Comptroller has determined the amount of
6 unappropriated surplus in said fund, after any amounts required by
7 provision of law to be transferred for other purposes have been
8 deducted, the amount of such surplus shall be transferred by the State
9 Treasurer to a special fund to be known as the Budget Reserve Fund.
10 When the amount in said fund equals ten per cent of the net General
11 Fund appropriations for the fiscal year in progress, no further transfers
12 shall be made by the Treasurer to said fund and the amount of such

13 surplus in excess of that transferred to said fund shall be deemed to be
14 appropriated, [to] as the Treasurer deems in the best interests of the
15 state: (1) To the State Employees Retirement Fund, in addition to the
16 contributions required pursuant to section 5-156a; [but not exceeding
17 five per cent of the unfunded past service liability of the system as set
18 forth in the most recent actuarial valuation certified by the Retirement
19 Commission. Such surplus in excess of the amounts transferred to the
20 Budget Reserve Fund and the state employees retirement system shall
21 be deemed to be appropriated for: (1) Redeeming] (2) to the
22 Connecticut teachers' retirement fund, in addition to the contribution
23 required pursuant to section 10-183z; (3) for the redemption prior to
24 maturity of any outstanding indebtedness of the state selected by the
25 Treasurer in the best interests of the state; [(2) purchasing] (4) for the
26 purchase of outstanding indebtedness of the state in the open market
27 at such prices and on such terms and conditions as the Treasurer shall
28 determine to be in the best interests of the state for the purpose of
29 extinguishing or defeasing such debt; [(3) providing] (5) for the
30 defeasance of any outstanding indebtedness of the state selected by the
31 Treasurer in the best interests of the state by irrevocably placing with
32 an escrow agent in trust an amount to be used solely for, and sufficient
33 to satisfy, scheduled payments of both interest and principal on such
34 indebtedness; or [(4)] (6) for any combination of these methods.
35 Pending the use or application of such amount for the payment of
36 interest and principal on outstanding indebtedness, such amount may
37 be invested in (A) direct obligations of the United States government,
38 including state and local government treasury securities that the
39 United States Treasury issues specifically to provide state and local
40 governments with required cash flows at yields that do not exceed
41 Internal Revenue Service arbitrage limits, (B) obligations guaranteed
42 by the United States government, and (C) securities backed by United
43 States government obligations as collateral and for which interest and
44 principal payments on the collateral generally flow immediately
45 through to the security holder.

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| This act shall take effect as follows and shall amend the following sections: |
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| Section 1 | <i>July 1, 2005</i> | 4-30a(a) |
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APP *Joint Favorable*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note**State Impact:**

| Agency Affected | Fund-Effect | FY 06 \$ | FY 07 \$ |
|-----------------|--------------|-----------|-----------|
| Treasurer | GF - Savings | See Below | See Below |

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill could result in savings where the Treasurer has determined that the long-term fiscal impact from using General Fund surplus monies to reduce the unfunded liability of the State Employees Retirement Fund and/or the Teachers' Retirement Fund is greater than the use of surplus for the retirement of debt. The average rate of return for the State Employees Retirement Fund and the Teachers' Retirement Fund over the last 10 years is 9%. The average interest rate for General Obligation bonds is currently about 4.5%.

OFA Bill Analysis

HB 6940

AN ACT INCREASING THE AUTHORITY OF THE TREASURER WITH RESPECT TO THE USE OF UNAPPROPRIATED GENERAL FUND SURPLUS IN EXCESS OF THAT TRANSFERRED TO THE BUDGET RESERVE FUND.**SUMMARY:**

Under CGS Sec. 4-30a, any unappropriated General Fund surplus is first transferred to the Budget Reserve Fund to raise the balance to 10% of net General Fund appropriations. Any additional surplus must be used to reduce unfunded pension liability in the State Employees Retirement Fund by up to 5% of unfunded prior service liability, followed by reduction of bonded indebtedness.

This bill allows the Treasurer to decide, after the transfer to the Budget Reserve Fund, whether it is in the state's best interest to use surplus money to reduce: (1) the unfunded pension liability in the State Employees Retirement Fund and the Teachers' Retirement Fund; or (2) bonded indebtedness; or (3) a combination of the two. The bill also removes the restriction that limits the reduction in unfunded pension liability for the State Employees Retirement Fund to 5% of unfunded prior service liability.

EFFECTIVE DATE: July 1, 2005

BACKGROUND

Article 28, Section 18(c) of the Connecticut Constitution requires that unappropriated General Fund surplus go to the Budget Reserve (Rainy Day) Fund or to the reduction of bonded indebtedness or any other purpose authorized by at least three-fifths of the members of each house of the General Assembly. The constitutional amendment became effective 11/25/92.

CGS Sec. 4-30a requires a transfer of unappropriated surplus to the Budget Reserve Fund to raise the balance to 10% of net General Fund appropriations. Any additional surplus must be used to reduce unfunded pension liability in the State Employees Retirement Fund by up to 5% of unfunded prior service liability, followed by reduction of bonded indebtedness. The section became effective 6/10/92.

Because the effective date of Article 28, Section 18(c) is more recent than CGS Sec. 4-30a, the constitutional amendment controls use of unappropriated General Fund surplus and renders inoperative the portion of CGS Sec. 4-30a that transfers surplus to the pension fund.

The bill permits the Treasurer to decide whether it is in the state's best interest to use unappropriated surplus to reduce unfunded pension liability or bonded indebtedness. Since the bill includes a use not specified in the constitutional amendment (i.e., reduction of the unfunded pension liability), it must be authorized by at least three-fifths of the members of each house of the General Assembly.

COMMITTEE ACTION

Appropriations Committee

Joint Favorable Report
Yea 33 Nay 15